

THE ROLE OF INDEPENDENT DIRECTORS IN CORPORATE GOVERNANCE

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ABSTRACT

The significance of independent directors in corporate governance has received considerable focus because of their capacity to improve transparency, accountability, and ethical practices in companies. Independent directors, characterized as nonexecutive board members without significant or financial connections to the company, offer impartial oversight and strategic direction. This article explores their diverse roles and essential input toward effective corporate governance.

Independent directors are essential for overseeing management effectiveness, safeguarding shareholder interests, and ensuring adherence to legal and regulatory standards. They balance executive authority by examining choices and promoting a culture of responsibility. Their fiduciary responsibilities include the duty of care— highlighting informed and careful decision-making—and the duty of loyalty, which places the company's interests above personal benefits. By meeting these responsibilities, independent directors tackle agency issues that stem from the misalignment between management and shareholder goals.

The existence of independent directors is crucial for the effectiveness of the board. Their varied viewpoints and expertise question existing beliefs, avoid groupthink, and aid in making informed decisions. As unbiased assessors, they encourage lively debates, fostering an equitable board atmosphere where every perspective is taken into account. This dynamic encourages better governance results and boosts the board's overall effectiveness.

Independent directors play an essential role in overseeing compliance and managing risks. They oversee internal controls and financial reporting procedures, guaranteeing that systems exist to recognize, evaluate, and reduce risks that might affect the organization. Their responsibilities include ensuring adherence to regulatory standards, upholding corporate integrity, and protecting stakeholder interests. This supervision guarantees that organizations function openly and morally.

Keywords: Independent Directors, Corporate Governance, Companies Act 2013.

INTRODUCTION

The company has shareholders Stakeholders, Creditors Managers, directors, auditors, etc. when these people have strong interests Company The main goal of a company is to maximize profits. And senior executives will... Responsible for making this happen as everyone who has an interest in the company... He is satisfied that an important part of corporate governance is providing a structure

for management. Direct, control and manage the business "There is a corporate governance package." Relationships between the company's management, the board of directors, shareholders, and others... Stakeholders Corporate governance also provides a structure based on objectives. Guidelines for achieving objectives and following up on performance as specified by the company. has been determined" (OECD,

2015). Revealing the four principles of good governance are: responsibility Honesty and transparency It is accurate to say that the company is holding high. This level of transparency builds confidence among stakeholders, shareholders and creditors. All of which are beneficial to the business in the long run.

An important component of a country's corporate governance standards is: Independent board of directors of publicly traded companies Committee on Corporate Governance: Autonomy is so important that it is practically necessary⁶³⁰. Updated for this reason. Governance reform has placed greater emphasis on the responsibilities of independent directors and Ability to promote higher standards of governance Acting as a liaison between the majority and between small shareholders as well as owners and business owners. Independent directors can reduce agency costs in these areas and ensure that the company's decisions align with the interests of its investors. When you know this result independent directors are important in corporate governance. And corporate governance will... We could gain a lot if we prioritize the role of independent directors. It is important to First, understand how independent directors work in order to talk about their work... good corporate governance.

(a) Who are independent directors?

International Finance Corporation (IFC)⁶³¹ Said he had to meet with an independent director. Basic standard set There is a rule that people who do not work for the company are or any of its affiliates for five years prior to the date of appointment. considered as such condition in addition, it must not be related to any business. In an ideal world, the company relies on consultants, consultants, key suppliers, or customers. Independent directors will not act

as executives of other companies, provided that a. Executives sit on committees or are related to people who act or act in their capacity... He has been the company's executive officer for the past five years.

Similar instructions for ID registration have been published by Securities and Securities and Exchange Board (SEBI) in India, according to SEBI⁶³², "Independent directors" are non-executive directors who have no substance. unless they receive compensation from directors... Financial relationship with the company founders, directors, senior executives or any other person Alliances that may compromise their independence cannot be combined Company promoters, executives, or people holding executive positions on the board of directors or any level... It was lower than that in the previous three financial years. The Companies Act 2013 places strong emphasis on independent directors under Section 149(4), which states that every publicly traded company must have at least one-third of the total... A number of directors serve as independent directors; however, this provision does not apply directly. Referring to the CEO duality which is common in the corporate sector... government.⁶³³

Corporate Governance in India

The term "minority shareholder protection" is often used to refer to companies... Good governance, which is a different issue. Even those who are aware of the company's concept... The regime often confuses American principles with current practices. Some basic meanings of corporate governance "Creditors of the company to ensure that they Corporate governance becomes a matter of getting a return on investment." First, Shareholder power over management is the cornerstone of

⁶³⁰ Donald C. Clarke, Setting the record straight: Three concepts of the Independent director, SSRN Electronic Journal (2006)

⁶³¹ IFC indicative independent director definition, <https://www.ifc.org/content/dam/ifc/doc/2023/IFCIndicativeIndependent-Director-Definition-062719.pdf> (last visited Jul 28, 2

⁶³² SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

⁶³³ The Companies Act, 2013, § 149(4), No. 18, Acts of Parliament, 2013 (India), available at <https://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf>

corporate governance⁶³⁴. There are not many shareholders. But the existing shareholders are close enough to the board... that will have some influence on the judges, actually it is smaller and is held more closely... Businesses all over the world However, few big businesses are that big. Shareholder base (e.g. Reliance Industries Limited)

The "Companies Act 2013" requires the appointment of independent directors in every listed company... Public Company Section 149(6) describes what is considered an independent director according to Section 149(7) requires all independent directors to declare their independence if necessary. Section 149 (8) establishes rules of conduct for independent directors and professional practitioners. Behaviour. The process for selecting independent directors is detailed in Section 150(1), one of which independent directors can be reappointed in accordance with Section 149 (10) even if they have already completed their term of office. Limited to five years This is because such independent directors cannot hold their positions. May be reappointed as an independent director for two consecutive terms... A period of three years after the work is completed.

The need for corporate governance

1. Investors who invest in the company until They are aware that the company has good corporate governance and everything the company has to offer. The information they need the company has been able to attract investors from all over the world. A world with good corporate governance

2. Supporting openness is a fundamental principle of corporate governance. as much as possible the more open an organization is in its financial and auditing processes, An opportunity to... There will be misconduct, fraud and other wrongdoing.

3. The two main elements of corporate governance are accountability and with transparency, it is easier for businesses to instill confidence and expectations. stakeholders if those necessary elements can be put in place. Because of the elders Management will act in good faith, reducing corporate governance. Company Risk

Independent Directors and Corporate Governance

The duties of a director on a company's board include guiding management decisions... To maximize shareholders' wealth and ensure that shareholders' interests are protected. One An important element is the independent and impartial operation of the committee. The committee is designed to achieve these goals. However, literary analysis This shows that the promoter's holding is a large amount of shares. Openness and disclosure are not enough. Committee steps and other factors that made the committee unable to defend Shareholders have a vested interest. Independent members should make up the committee. To guarantee the smooth and proper operation of the board. Additional evidence suggests that the independence of the board and the performance of the company are related to the independent board. Superior corporate transparency policies increase investor interest in improved companies. Reputation thus strengthens the interests of the organization's stakeholders.

The concept and spirit of corporate governance remain uncontested. And this is very true... When considering the work of independent directors psually used within ID Corporate governance framework Appointed to ensure an effective and informed board, the Board of Directors (BOD) is undeniably the most important tool. Supervising and following up on compliance with corporate governance principles is important. The committee received support from ID that criticized the policy choices and initiatives. Moreover, it also guarantees responsibility by closely scrutinizing

⁶³⁴ Andrei Shleifer & Robert W. Vishny, A Survey of Corporate Governance, 52 J. Fin. 737 (1997).

the management team... Show. With independence People can then do these tasks more quickly. It prevents them from having any connections. That may distort their judgment. Corporate governance can attract large sums of cash for business operations by ensuring that all business transactions are equitable and transparent for all parties involved. Thus, attracting investors and ensuring that the company has a strong board of directors. Independence of the Board It is imperative that he performs his duties impartially. and management must be responsible to the company in many legal systems, practice suggests that having independent directors is the solution⁶³⁵.

The existence of large family companies poses serious risks of liability and Transparency, which has led to sharp criticism of the Indian corporate sector's history of laxity... Compliance with the Regime In the past, family members played an important role. Most of these businesses do not feel motivated to have independent directors... with enough information It is difficult to retain independent directors. Responsibility and openness especially when they attend the annual meeting is quite a bit... which is mainly ceremonial in nature as a result, many large corporate structures have independent directors. Groups with widespread property interests—failed to properly understand... or responsible for various matters to the committee This can be compared more than this. efficient western business Where independent directors are seen as partners... As the “external overseer”⁷ of the management team and company whose job is to ensure that Management never loses sight of creating value for shareholders.

⁶³⁵ Manu Sharma, Role of Independent Directors in Corporate Governance, 16 SUPREMO AMICUS 198 (2020) ⁷ See Jitendra Singh, Mike Useem & Harbir Singh, Corporate Governance in India: Is an Independent Director a Burden or a Burden, Feb. 2007.

Case study

(a) Satyam Fiasco

The largest accounting fraud in the history of an Indian company. 7,000 trillion balance sheet fraud eight years ago He kept the information secret. Board of Directors, Employees, Auditors and IT companies for many years. This fraud has become known as India. Referring to Enron, an American energy company that failed due to heavy accounting... scandal It has revealed many worrying facts about the country's shortcomings. Corporate governance rules True is also the fourth largest company in the country. Renowned clients and recipients of numerous corporate awards. Including many corporate awards Including prestigious awards... The Golden Peacock Award for Global Excellence in Corporate Accounting is a mess... Just a few months after being known as India's IT gem, this is the biggest scam in the country. It shocked the business community in India and affected the company's standing among investors. One Many deficiencies in the corporate governance process were exposed through fraud. unethical behaviour unethical accounting Questionable work of auditor A The committee is incompetent. Lack of independent directors and cannot disclose shares A promise was made.

(b) Tata son case

The decision to remove Mr. Cyrus Mistry from the position of Chairman of Tata Sons has created a controversial... and damaged the Tata family's reputation for moral leadership in India Inc. All independent directors on the board of IHCL (Indian Hotels Company Limited) Support Mr. Mistry Due to the joint responsibility of the committee, Mr. Mistry and Independent directors are equally liable for mismanagement. According to Mr. Cyrus Original problems and hotspots are the root of all crises. What situations lead to independent directors of Tata Chemicals and IHCL to support Mr. Mistry? What they can do Really? The largest standards of corporate governance have been incorporated into the company.

Structure of the Tata Group, led by Mr. J.R.D. Tata for nearly 50 years and Mr. J.R.D. Tata Ratan Tata for more than 20 years, Mr. Mistry has deliberately interrupted this long term. It refers to itself as the sole representative of Tata Sons on the corporate structure board. Tata operating unit It is important to remember that when employment ends at all. Under the regulatory framework for Tata employees, they will immediately resign from Tata Corporations, where they serve as non-executive directors, with Mr. Mistry. Built in 2015. So according to his orders So Mr. Mistry had to leave. Tata Sons Board of Directors immediately resigned from the position of Executive Chairman. However, he chose not to do so in flagrant violation of governance guidelines. Type

V. conclusion

In a broader format independent directors may be necessary to achieve goals. corporate governance As the Indian economy is expanding and businesses is expanding Obtaining unprecedented levels of funding from domestic and international sources. It's even more fascinating. As the Indian business sector grows Expectations also increased. that it will adhere to stricter corporate governance guidelines for itself in a transparent manner... Shareholders. They owe a fiduciary duty to investors. which the law cannot exempt... Prove that no fraud or malice has occurred. But in such a way partnership Studies have found that a board's ability to increase company performance increases with the level... freedom of speech Because it represents the interests of all investors. Even small owners and has no interest in the company They help the company run smoothly...